



International Market Insight [IMI]

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by: **Rachel Maguire**
approver: **Aileen Nandi**

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Mexico is quickly emerging as a key market for U.S. insurance companies largely due to the opportunities for foreign investors and an improving regulatory oversight. Generating more than 25 percent of the total premiums in the region, Mexico is the second-largest insurance market in Latin America, behind Brazil. Currently, 3 foreign and 2 Mexican insurance companies that comprise almost 63 percent of the market dominate the insurance market in Mexico. Yet insurance has experienced low penetration in Mexico, representing only 2 percent of the total GDP of Mexico, much smaller than the insurance market in the United States as well as other Latin American countries such as Brazil and Chile. Nevertheless, small niches of insurance products, such as educational, transportation and natural hazard products exist in this growing market and offer substantive opportunities for U.S. firms.

MARKET CHARACTERISTICS

Market Profile

As of July 2004, 84 private insurance companies operate in Mexico, 36 of which are foreign-owned. The United States is the largest foreign supplier of insurance services with a share of more than 40 percent of the total market. The United States, as a NAFTA country, has a unique advantage over third country insurance firms because, as of 2000, U.S. companies can participate with 100 percent involvement, and implement innovative services already available in the United States.

In 2003, insurance companies in the Mexican market reported a 55 percent net rise in profits to about US\$805 million. Despite increased profits in 2003, total direct premiums fell by 9 percent, from MX\$129 billion to MX\$118 billion pesos, the first drop in 10 years. Yet, much of the decrease in premiums was in life insurance, which suffered losses due to new regulatory laws and a re-classification, which resulted in a previous life insurance product no longer labeled as an insurance product. Regardless of the drop in premium sales, the total amount of premiums received has doubled since 1996. In the first trimester of 2004, premiums surpassed MX\$34,798.2 million pesos, only 2 percent of which were directed to re-insurers. This sum represented a 12.8 percent growth from the first trimester in 2003.

COMPETITIVE ANALYSIS

End Users

At least 70 percent of the end users are located in the States of Nuevo Leon, Puebla, Guerrero, Veracruz, Jalisco, Tamaulipas, State of Mexico, Quintana Roo, Mexico City, Queretaro, San Luis Potosi, Sonora and Sinaloa. Insuring one's self and one's possessions, with the exception of one's automobile, is not common in Mexico, and many Mexican nationals perceive insurance as an expense, not an investment. Yet, this mentality is changing, and more Mexican nationals are interested in the insurance market. Education is key, however, to reaching Mexican end-users successfully.

BEST SALES PROSPECTS

Insurance is still in its infancy in Mexico and in order to be successful, U.S. companies must market an innovative product that can compete with current products and is affordable, or offers affordable payment plans. Moreover, U.S. companies must be willing to invest a considerable amount in education, and be patient. Education about insurance products is key in Mexico to combat cultural tendencies of not preparing for the future. While significant growth has occurred in the insurance market and is expected to continue growing in the near future, the growth has not been as explosive as previously expected. There are roughly 30 million potential end-users in Mexico but U.S. companies must be prepared to educate Mexicans on the benefits of insurance policies, and to demonstrate that investing in a policy will result in more security in the future.

The most substantial growth areas for insurers in Mexico are in health, life, property and casualty, including auto insurance, yet these markets are saturated by large insurance companies. Smaller, niche markets, however, are also expected to experience growth in the next five years. According to the *Asociacion Mexicana de Instituciones de Seguros (AMIS)*, or the Mexican Association of the Insurance Companies, the Mexican market is completely open to foreign investment and a demand exists for products that are marketed effectively, and developed and priced according to the needs and interests of Mexicans.

Some of the insurance niche markets that offer promising opportunities for U.S. firms are: **agricultural production**, **educational**, and **transportation**, including private helicopters, jets, vessels and boats, as well as inter-urban passenger buses. Due, in part, to increased regulation combined with social pressure, **environmental insurance** for companies that generate large amounts of hazardous wastes that contaminate the soil, water and air is expected to grow significantly. Moreover, over 5 million Mexican tourists travel to the United States each year, 70 percent of which are potential end-users of **travel insurance**. Some Mexican families have summer homes in California, Texas and Florida making them end-users of travel protection as well as specific property products. **Title insurance** is a new product in the Mexican market and very few commercial, industrial and residential real estate have title insurance currently, but

experts in the field expect to see significant growth in the next 5 years. Currently, 80 percent of title insurance is marketed to U.S. investors and homeowners, and 20 percent to Mexicans, but the title insurance companies expect to invert that ratio within 5 years.

While statistics in this sector are unreliable, kidnappings in Mexico are growing increasingly more frequent. Recently, a security company based in New York estimated that approximately 3000 kidnappings occur per year in Mexico, second only to Colombia. Moreover, it suggested kidnappings in Colombia are on the decline whereas in Mexico, the trend is rising. Previously, kidnappings were a concern only of the very wealthy in Mexico, but now kidnappers have begun asking for smaller ransoms (US\$100,000), and attacking a larger population. Police collusion, especially in Mexico City, contributes to the frequency of kidnappings in Mexico. Moreover, the public has grown more aware of kidnappings and the demand for security products, including **kidnapping insurance**, is increasing.

REGULATION

All insurance companies must first register and be authorized by the *Secretaria de Hacienda y Credito Publico* (SHCP). The direct oversight is through Mexico's Insurance and Bond Commission (*Comision Nacional de Seguros y Fianzas, CNSF*). CNSF is the federal agency that licenses domestic and foreign investors to operate in Mexico's insurance industry and serves as the regulating body of the industry. It is responsible for certifying insurance agents, suspending licenses, and penalizing insurance companies. Insurance companies can obtain a license from the CNSF to operate in one of Mexico's 32 states or in a specific region. Larger insurance companies operate in all major cities in Mexico.

The CNSF, in a continued effort to improve the regulatory environment, has implemented numerous changes including: updating interest rates for calculating life reserves to reflect the effects of the lower interest rate environment, regulating the development of loss-making methodologies for the property and casualty book of business, authorizing insurers to issue debt at the operating level, and adjusting the regulatory framework for finite reinsurance and alternative risk-transfer schemes.

Sixty-four of the top insurance companies belong to the AMIS, a private organization comprised of insurance and re-insurance companies devoted to promoting the development of the insurance market in Mexico.

MARKET ACCESS

Insurance companies authorized by the CNSF sell services through certified agents. Insurance firms usually sell their services through the roughly 30,000 certified agents in Mexico by placing ads in major newspapers or business magazines. Other common practices include buying time on television, radio, announcing via billboards in strategic locations, or attending local trade shows. Internet-based sales are in their infancy.

Banks are the largest sellers of insurance policies and are beginning to sell policies through ATM machines.

TRADE REGULATION

U.S. firms must comply with the regulations outlined in the “*Ley de Contrato de Seguro*” (Law of Insurance Contracts) and the “*Ley de Instituciones de Seguros*” (Law of Insurance Firms).

IMPORT DUTIES AND TAXES

U.S. companies are obligated to pay taxes to Mexico only if they have offices and/or employees in Mexico. U.S. insurance firms with offices in Mexico must adhere to tax-rates according to the Mexican progressive tax code, which could be as high as 35 percent on annual sales.

CONTRACT PRACTICES AND COMMON SERVICES

Policy agreements are generally reviewed annually, and companies can have simultaneous insurance agreements with the same company. Insurance companies doing business in Mexico sell services in Mexican pesos, but offer life insurance policies in U.S. dollars.

TRADE PROMOTION OPPORTUNITIES

There are no specialized trade shows in the insurance industry in Mexico. Major insurance firms usually buy space at large international shows and offer their services to visitors and exhibitors in the shows through certified agents.

TRADE PUBLICATIONS RELATED TO THE INSURANCE INDUSTRY

The majority of insurance companies circulate their own publications among their employees and agents. The publications are not for sale to the public and carry ads and articles related strictly to their company.

KEY CONTACTS

For further information about the insurance market and the services provided to U.S. firms by the U.S. Commercial Service to access these business opportunities, please contact:

Juan Carlos Ruiz
Trade Specialist
U.S. Commercial Service, Mexico City
Tel: (011-52-55) 5140-2654

Fax: (011-52-55) 5566-1115

E-mail: JuanCarlos.Ruiz@mail.doc.gov

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